

LOS ANGELES DEPARTMENT OF WATER AND POWER

Schedule of Prior Year Findings and Questioned Costs

Year Ended June 30, 2006

Current Status of Findings and Recommendations Relating to Federal Awards

Finding 2006-01 – Lack of Internal Control to Ensure Compliance with Davis-Bacon Act

Information on Federal Programs: U.S. Environmental Protection Agency: Passed through State of California Department of Health Services – CFDA 66.468 (Water System)

Specific Requirement: According to OMB Circular A-133, when required by the Davis-Bacon Act, the Department of Labor's (DOL) government-wide implementation of the Davis-Bacon Act, or by federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7).

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the nonfederal entity weekly, for each week in which any contract work is performed, a copy of the payroll, and a statement of compliance.

Condition: The Department does not have internal control procedures to verify if current contractors for Safe Drinking Water Project pay all of its employees not less than the prevailing wage rates. In addition, we could not test compliance with Davis-Bacon Act for one of two contractors.

Questioned Costs: None noted

Systemic or Isolated: Systemic

Effect: The Department may be transacting with third-party vendors that are in violation of the Davis-Bacon Act.

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Recommendation: Managers of the Safe Drinking Water Projects should periodically request for copies of the contractors' certified payroll to verify if they pay their employees not less than the prevailing wage rates. Moreover, managers should require the contractors to submit a statement of compliance to the Act.

Current Status: The Department's Cost and Project Accounting has requested the contract administrators of the Safe Drinking Water Projects to periodically obtain contractors' certified payroll to verify compliance with the Davis-Bacon Act. This audit finding is closed.

Finding 2006-02 – Lack of Sufficient Control over Review and Approval of Requests for Materials and Supplies (RMS)

Information on Federal Programs: U.S. Department of Transportation – Metro Rail Passed through L.A. County Metropolitan Transportation Authority (MTA) – CFDA 20.500 (Power System)

Specific Requirement: According to OMB Circular A-87, Attachment A, paragraph C, to be allowable under federal awards, cost must be authorized or not prohibited under state or local laws and regulations.

Condition: The Department does not implement strict and systematic procedures on approving RMS. As a result, some of the materials issuances that are reported in the SEFA were not properly approved by authorized approvers.

Questioned Costs: \$668 (likely questioned costs are less than \$10,000)

Systemic or Isolated: Systemic

Effect: Unauthorized issuances of materials and supplies may be improperly reported, overstating the expenditures reported in SEFA.

Recommendation: The Department should enforce its procedures mandating proper review and approval of RMS before issuances are made. In addition, approved requisitions should be systematically filed such that each storekeeper is made responsible for lost or misplaced files.

Current Status: A meeting was held with management of Stores Division to strictly enforce the existing control procedures over issuance of materials which include the proper review and approval of RMS before issuances are made. This audit finding is closed.

Finding 2006-03 – Lack of Sufficient Control to Verify Inclusion of all Ongoing Projects in SEFA

Information on Federal Programs: U.S Department of Transportation – Metro Rail Passed through L.A. County Metropolitan Transportation Authority – CFDA 20.500 (Power System) and U.S. Environmental Protection Agency Passed through State of California Department of Health Services (Water System).

Specific Requirement: According to OMB Circular A-133, Section 310(b), all federal awards expended should be identified and included on the schedule of expenditures of federal awards.

Condition: The Department does not have adequate procedures to verify that all ongoing projects by Metropolitan Transportation Authority (MTA) are properly reported in the SEFA. We noted that some expenditures are only reflected in SEFA when project managers inform the Cost Accounting group, which may be after the project has been completed. In addition, EPA contract number SRF06CX144 was not included in the preliminary SEFA prepared by the Department.

Questioned Costs: Unknown

Systemic or Isolated: Systemic

Effect: Expenditures may not be properly reported in SEFA in the correct reporting period.

Recommendation: The Cost Accounting group should regularly coordinate with other business units in the Department as to what projects are currently ongoing and are to be reported in current SEFA, to verify completeness of projects and expenditures reported.

Current Status: The Department's Cost and Project Accounting is closely working with the divisions to ensure that all federal awards are identified and related federal expenditures are reported in the SEFA. This audit finding is closed.

Finding 2006-04 – Missing Supporting Documentation for Purchases Made

Information on Federal Programs: U.S. Department of Transportation – Metro Rail Passed through L.A. County Metropolitan Transportation Authority – CFDA 20.500 (Power System) and U.S. Department of Homeland Security – Federal Emergency Management Agency (FEMA) Passed through State of California Governor's Office of Emergency Services (OES) – Public Assistance Grant – CFDA 97.036 Power System).

Specific Requirement: All nonfederal entities shall follow federal laws and implementing regulations applicable to procurement, as noted in federal agency implementation of the OMB circular A-110. These standards are furnished to ensure that such materials and services are obtained in an effective manner and in compliance with the provisions of applicable federal statutes and executive orders. No additional procurement standards or requirements shall be imposed by the federal awarding agencies upon recipients, unless specifically required by federal statute or executive order or approved by OMB.

Condition: Four purchase orders issued during the year are not supported by proper documentation, thus, there is no means to verify if procurement policies and procedures were properly implemented.

Questioned Costs: \$720 for CFDA 20.500 and \$156 for CFDA 97.036 (likely questioned costs are less than \$10,000)

Systemic or Isolated: Systemic

Effect: Purchases made may be unauthorized or may have violated procurement policies and procedures, which may result to overstated purchases reported in the SEFA.

Recommendation: All purchases made should be supported by documentation that prove that they are in compliance with the procurement policies and procedures. Furthermore, the Department should implement a systematic filing of these supports to establish audit trails and facilitate policy compliance testing.

Current Status: The Department's Supply Chain Services has taken and continues to take steps to improve its filing system in an effort to ensure that all purchases are supported by documentation that are readily available for subsequent review by interested parties. This audit finding is closed.

Finding 2006-05 – Lack of Sufficient Control over Review and Approval of Payroll Costs

Information on Federal Programs: U.S Department of Homeland Security – Federal Emergency Management Agency (FEMA) Passed through State of California Governor's Office of Emergency Services (OES) – Public Assistance Grant - CFDA 97.036 (Power System).

Specific Requirement: According to OMB Circular A-87, Attachment A, paragraph C, to be allowable under federal awards, cost must be authorized or not prohibited under state or local laws and regulations. Moreover, according to A-102 Common Rule and OMB Circular A-110, where a funding period is specified, a nonfederal entity may charge to the award only costs resulting from obligations incurred during the funding period.

Condition: Certain payroll costs are not supported by properly reviewed and approved timesheets.

Questioned Costs: \$1,801 (likely questioned costs are in excess of \$10,000)

Systemic or Isolated: Systemic

Effect: The Department may be incorrectly charging payroll costs to programs funded by the federal government, overstating the expenditures reported in SEFA.

Recommendation: Supervisors designated to approve payroll costs to be charged to this program should take note of the correctness of hours charged. Moreover, timekeepers should verify if timesheets are properly approved before time charges are recorded in the payroll system.

Current Status: A meeting was held with management of the pertinent division to discuss the process of the review and approval of employees' time before recording in the payroll system. This audit finding is closed.

Finding 2006-06 – Absence of Controls for Suspended/Debarred Vendors

Information on Federal Programs: All federal programs in the Schedule of Expenditures of Federal Awards.

Specific Requirement: According to OMB Circular A-102, Section .1.c(6), federal grantees are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

Condition: The Department did not have controls in place for the entire year under audit to verify if vendors from whom it is purchasing goods or services are suspended or debarred. None of the vendors we tested was suspended or debarred.

Questioned Costs: None noted

Systemic or Isolated: Systemic

Effect: Purchases may be made from disqualified vendors who have been suspended or debarred by the federal government.

Recommendation: The Department should establish procedures to verify if vendors are debarred or suspended before purchases for all projects funded by federal grants are made.

Current Status: The Department's Cost and Project Accounting is now verifying if vendors are debarred/suspended in the Excluded Parties List System (<http://epls.arnet.gov>) upon notification of new purchase orders or contracts for projects funded by federal grants. This audit finding is closed.